

Message Text

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ACTION EB-04

INFO OCT-01 SS-04 ISO-00 EUR-03 NSC-04 CEA-01 FRB-03
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R 251611Z APR 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 5500
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY ROME
AMEMBASSY PARIS
AMEMBASSY TOKYO
AMEMBASSY MEXICO
AMEMBASSY BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 06482

LIMDIS GREENBACK

USEEC
USOECN ALSO FOR EMBASSY

REF: BRUSSELS 7715

E.O. 11652: XGDS-1
TAGS: EFIN, EEC
SUBJECT: U.K. POSITIONS AT IMF INTERIM COMMITTEE

SUMMARY: ACCORDING TO SENIOR HM TREASURY SOURCE,
CHANCELLOR HEALEY VERY MUCH HOPES U.S. WILL NOT OBJECT
TO A STUDY OF IMF SUBSTITUTION ACCOUNT. HEALY WOULD
NOT PLAN TO RAISE (A) WITTEVEEN PROPOSAL IN A SUBSTAN-
TIVE WAY THAT WOULD BE EMBARRASSING TO U.S. (BECAUSE
OF CONGRESSIONAL CONSIDERATIONS) OR (B) ADDITIONAL
SDR ALLOCATION, WHICH U.K. SEES AS A RELATED ISSUE
AND WHICH GERMANY STRONGLY OPPOSES. A G-10 DEPUTIES
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SESSION COULD BE USEFUL, ESPECIALLY TO DISCUSS GAB
REPLENISHMENT SHOULD U.S. BE SERIOUSLY CONSIDERING
AN IMF STANDBY OR DRAWING; U.K. IS INTERESTED IN
GETTING FAIRLY CLEAR IDEA OF U.S. INTENTIONS ON THIS
POINT, BECAUSE OF POTENTIAL U.K. CONTRIBUTION THAT
COULD BE REQUIRED. SOURCE CAUTIONED AGAINST U.S.
TAKING SIDES IN INTERNAL EC DIFFERENCES OVER FUTURE

DEVELOPMENT OF EMU. END SUMMARY

1. TREASURY REPS HAD LENGTHY DISCUSSION WITH SENIOR HM TREASURY SOURCE RESPONSIBLE FOR IMF

AFFAIRS. SOURCE HAD JUST LEFT A SESSION WITH CHANCELLOR HEALEY, GAVE A RUN DOWN ON IMF INTERIM COMMITTEE POSITIONS, BUT OTHERWISE COVERED LITTLE NEW GROUND.

2. SOURCE ASKED WHY THE DOLLAR AND NEW YORK STOCK MARKET HAD RECOVERED SO SHARPLY. PLANNED GOLD SALES WERE VERY SMALL AND HAD, IN FACT, COME(ALONG WITH THE FED'S MOVE TO RAISE INTEREST RATES)AFTER THE DOLLAR BEGAN TO STRENGTHEN. THE TIMING OF THE TWO MEASURES WAS THUS VERY GOOD, BUT THE FUNDAMENTAL ECONOMIC POSITION OF THE U.S. DOES NOT APPEAR TO DIFFER FROM TWO WEEKS AGO. MEASURES TAKEN WERE, OF COURSE, VERY WELCOME, AND EFFECTIVELY BELIED CHARGES OF BENIGN NEGLECT.

3. TURNING TO IMF INTERIM COMMITTEE THAT HEALEY WOULD CHAIR, SOURCE SAID THE U.S. WOULD NOT BE SURPRISED BY U.K. POSITIONS AT THE INTERIM COMMITTEE MEETING. U.K. WOULD NOT RAISE WITTEVEEN FACILITY IN A SUBSTANTIVE WAY, AS IT IS STILL IN THE LAP OF THE U.S. CONGRESS. LIKEWISE, U.K. WOULD NOT PROPOSE FURTHER CONFIDENTIAL

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SDR ALLOCATIONS; IT BELIEVES U.S. SEES THIS ISSUE RELATED TO THE WITTEVEEN FACILITY, AND THE GERMANS ARE OPPOSED TO FURTHER SDR CREATION.

4. CHANCELLOR HEALEY DOES STRONGLY HOPE THAT A PROPOSAL TO INITIATE A STUDY OF THE SUBSTITUTION ACCOUNT WILL NOT BE REJECTED OUT OF HAND BY THE U.S. THE U.S. NEEDN'T AGREE WITH ALL POINTS BUT CHANCELLOR HEALEY FEELS THAT IT IS AN IDEA THAT IS AT LEAST WORTH EXAMINING. IN REPLY TO QUESTION, TREASURY REPS SAID TO THEIR KNOWLEDGE, NO FIRM DECISION HAD BEEN TAKEN ON A U.S. POSITION OR REACTION TO THIS INITIATIVE.

5. ONE POSSIBILITY RAISED BY SOURCE WAS A GROUP OF TEN DEPUTIES MEETING TO DISCUSS GAB REPLENISHMENT. FACT THAT THE U.S. HAS PUBLICLY DECLARED ITS WILLINGNESS TO CONSIDER DRAWING ON THE FUND'S RESOURCES HAS ELEVATED THE MATTER'S IMPORTANCE WHICH COULD HAVE BUDGETARY OR FINANCIAL RAMIFICATIONS FOR THE U.K.

6. SOURCE ALSO NOTED THAT ALTHOUGH PRIME MINISTER

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 06482

LIMDIS GREENBACK

CALLAGHAN'S FIVE POINTS WERE GENERALLY WELL RECEIVED IN THE U.S., THE POINT TOUCHING CURRENCY STABILITY DID NOT ELICIT A WARM RESPONSE. EXPLAINING HOW SUCH A SYSTEM MIGHT WORK, SOURCE STRESSED THAT THE POINT WAS NOT MEANT TO IMPLY A SYSTEM OF EXCHANGE RATE ZONES, BUT THEN APPARENTLY BELIED THE STATEMENT BY EXPLAINING THAT IF A SYSTEM WERE ESTABLISHED, THERE COULD BE FAIRLY WIDE BANDS, E.G., FOR THE U.K. IF A CURRENCY CAME NEAR THE BANDS, IT COULD BE TAKEN AS A SIGNAL THAT ECONOMIC POLICY MEASURES MIGHT NEED TO BE TAKEN. TO A DEGREE, THE U.S. HAD TAKEN SOME SUCH ACTIONS. THE STEPS THAT THE U.S. HAD TAKEN DID SEEM TO BE SMALL. NONETHELESS, THE LATEST MEASURES, AT LEAST AT THIS TIME, APPEAR TO HAVE BEEN EFFECTIVE.

7. IN REPLY TO OUR QUESTION ABOUT DETAILS OF MONETARY PROPOSALS AND DISCUSSIONS BETWEEN CALLAGHAN AND
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SCHMIDT, SOURCE PROFESSED IGNORANCE; DISCUSSIONS SO FAR HAVE BEEN FAIRLY ABSTRACT, FOCUSING ON DESIRED AIMS RATHER THAN SPECIFIC MECHANICS OF ACHIEVING THEM. (SEE ALSO LONDON 5833 NOTAL). SOURCE CAUTIONED AGAINST U.S. TAKING SIDES IN INTERNAL EC DIFFERENCES OVER FUTURE DEVELOPMENT OF EMU, SAYING THIS IS SOMETHING THE EC WILL HAVE TO WORK OUT FOR ITSELF. LOOKING AHEAD, SOURCE SAID IT REMAINED TO BE SEEN IF NEW ARTICLE IV OF AMENDED FUND ARTICLES WILL BE STRONG ENOUGH TO SERVE AS THE FOUNDATION OF EVOLVING INTERNATIONAL MONETARY SYSTEM, ALTHOUGH BOTH FRENCH AND U.S. ARE COMMITTED TO IT AND SHARE ITS PARENTAGE. SOURCE CITED DE LA ROSIERE'S MAJOR ROLE IN DRAFTING ARTICLE IV AND, IN REPLY TO QUESTION, FULLY ASSUMED HE WOULD SUCCEED WITTEVEEN.

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